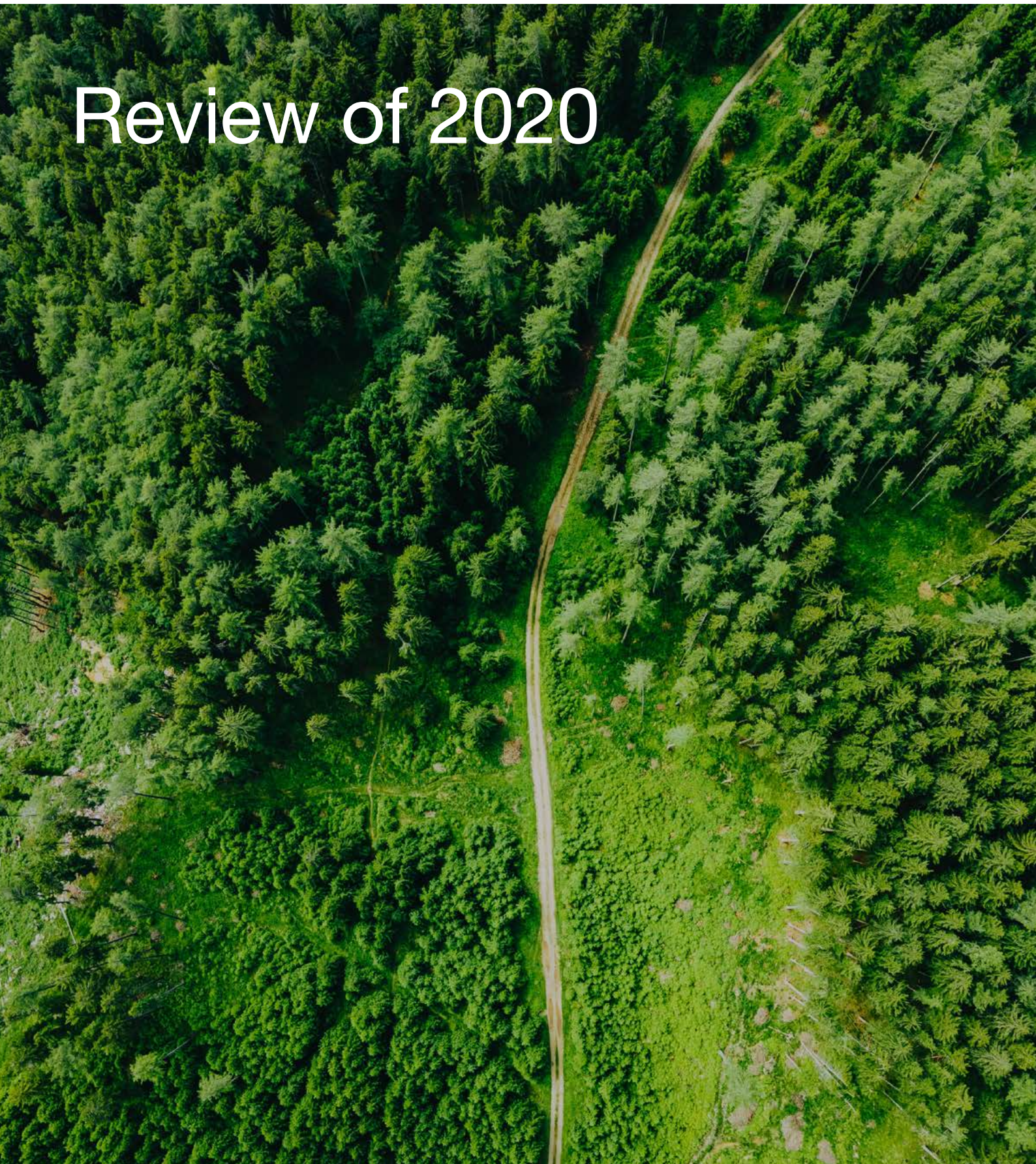


Sustainable Investment Report

Review of 2020



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Welcome from our Managing Partner

I am delighted to be introducing our first annual Sustainable Investment Report

Our sustainable investment journey

YFM has a long and successful track record of investing in small businesses in the UK and helping them to grow. This has always meant building not just bigger but also better businesses. More recently we have made our aim of building better businesses more explicit and formalised a number of our policies and procedures into a sustainable investment system.

Later in this report you will read about our commitment to our new Sustainable Investment Policy, becoming a signatory to the Principles For Responsible Investment (PRI), adopting a new pre-investment ESG screening tool, and collecting over 50 pieces of ESG data from each of our portfolio companies and setting targets so that we can track progress in each business in which we are invested.

A lot has been introduced over the past couple of years and we have dedicated YFM Partner Paul Cannings as senior resource to this as well as involving the whole of our team in the new processes. But this is a journey and we plan to continue to grow and shape our sustainable investment approach in the coming years. For this first public report we are including only portfolio wide data and selected case study examples. In addition we now report ESG matters on a business by business basis separately to our LP investors for investments in our buyout funds and we hope in future years to be able to provide this for our VCT shareholders in relation to their investments too.

2020 was a year like no other

2020 was a year of significant challenges for UK businesses with both the changes of Brexit, and the lockdown restrictions imposed as a result of the

Covid pandemic. And, of course, it was a difficult year for the people behind those businesses and indeed our own. We are very proud of how the businesses we support responded and looked after their teams, customers and local communities during this difficult period and we hope we achieved the same within our own business.

Despite the crisis, our portfolio has supported YFM in its efforts to strengthen its Sustainable Investment programme and we believe their commitment and ability to focus on this in the toughest of times is perhaps a good indicator of their ultimate sustainability in the widest sense of that word.

Looking ahead

We look forward to reporting in future years on progress both in our approach to measuring, targetting and reporting on ESG performance and progress in the impact management of the businesses we invest in. We are determined that our guiding principle will remain that YFM makes strong returns for its investors by building better businesses.

David Hall
Managing Partner
YFM Equity Partners




YFM – review of the year for 2020

36
team members



6
new joiners



£80m
new funds raised



£25m
invested in UK
businesses

of which half was to finance R&D,
geographical expansion and job creation

4
new investments



39
companies in the
portfolio at the end
of the year

4
exits from the
portfolio which
together had:

- employed 461 people
- grown annual R&D from £0.5m to £1.3m
- improved governance by adding 3 independent chairs
- introduced carbon reducing strategies at each of their businesses



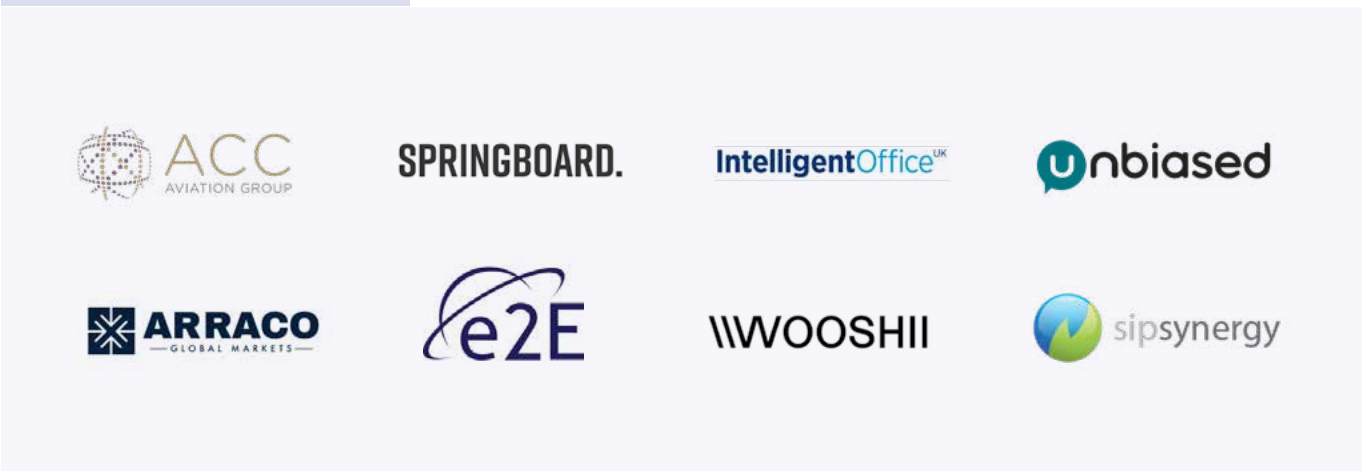
YFM portfolio at a glance

Our BSC and BSC2 VCT portfolios with data at 31 December 20

Software



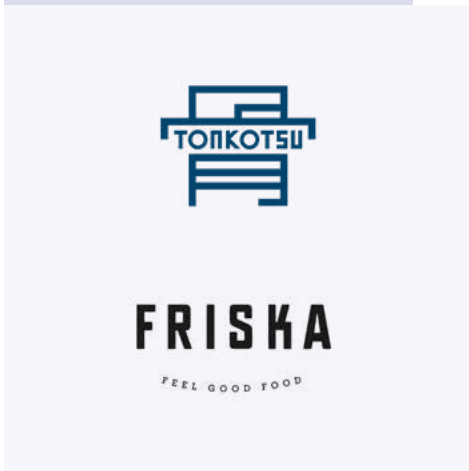
Services



Products



Consumer



YFM portfolio at a glance

Buyout Fund I and Buyout Fund II portfolios at 31 December 2020

Products



Services



Consumer



Our approach to Sustainable Investment

Why Sustainable Investment matters to us



YFM's central strategy is, and has always been, to make investments in businesses and then help those businesses to become bigger and better, while producing strong financial returns for our investors. We believe that building better businesses includes improving their impact on the economy, on the people they employ, on wider society and on the environment.

Our Sustainable Investment Principles

To seek to understand the ESG related impacts and potential impacts of what we invest in, aiming to grow and enhance positive impacts and to avoid, reduce or minimise any negative impacts over the lifetime of our investments, leaving them overall better businesses.

To place a focus on the challenge of climate change both as it may be affected by our investments, and as it may impact on them and their resilience to possible climate change scenarios.

To play a positive role in the investor, business and wider communities in which we work by promoting good practice in ESG management, and by being accountable and transparent in the way we invest and behave.

To show leadership by managing our own business ESG impacts to the best of our ability.

To be a proactive signatory to the PRI and to integrate its principles into our business practices.

What have we done so far?

From its earliest days, YFM has tried to be a responsible investor. By investing in small UK businesses and looking for longer term returns over several years, we have helped create long term jobs, increased investment in new technologies, and helped strengthen the SME portion of the UK economy. And by being an active investor we have also helped improve governance standards in those businesses.

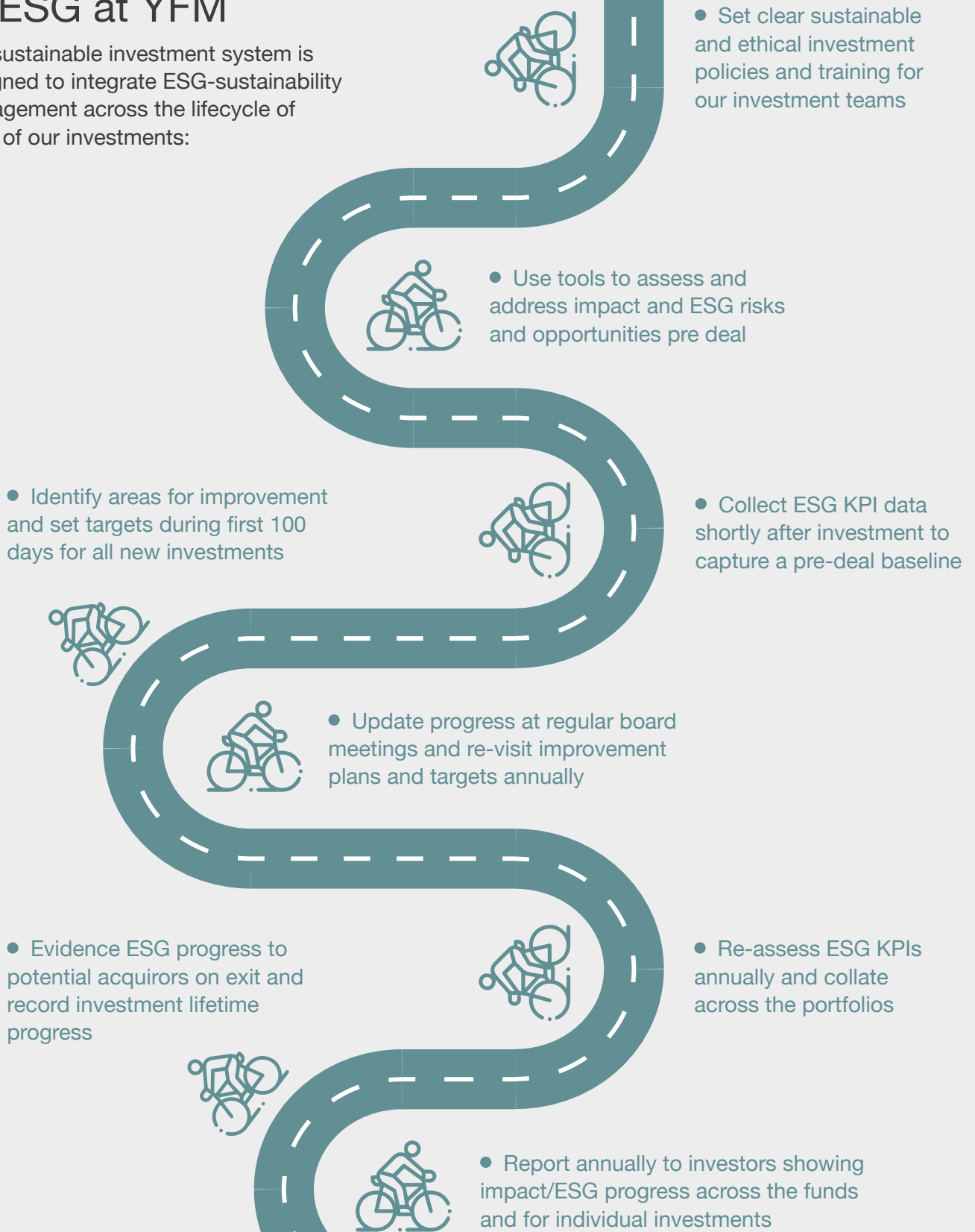
In 2018 we decided to develop a simple model to identify what our portfolio of businesses were doing in terms of ESG management, what they were seeking to improve and where they needed support. Having received good traction with this process, and mindful of the many drivers to the ESG agenda, we took the next big step forward and became signatories to the PRI during 2020. One of our partners, Paul Cannings, became the lead on impact and ESG and we appointed external advisors to support us.

Also during 2020 we published our Sustainable Investment Policy and re-wrote our ethical policy. We started including a formalised Impact and ESG section in our internal investment approval papers and adopted a set of over 50 thematic ESG KPIs which we used to collect data for 2019 and 2020 from the portfolio in order to create baseline and follow on data. Results from this exercise are highlighted on page 12.

We also started to scope out a pre-investment assessment tool and a portfolio phase ESG monitoring and target setting tool which we have involved our team in developing and trialling. We will be able to give more details on the implementation of these tools in next year's report.

Lifecycle integration of ESG at YFM

Our sustainable investment system is designed to integrate ESG-sustainability management across the lifecycle of each of our investments:

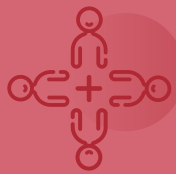


A thematic approach

Our lines of enquiry, assessment, action planning, and reporting are organised around a set of four themes, each with subsidiary ESG sub-themes, to provide consistency of focus. We take into consideration how material each sub-theme is for any given company to ensure that we place emphasis on the things that matter most.

Improve our Society

- Strong ethics and governance
- Treating customers well
- Sustainable supply chain
- Supporting local communities



Protect our Environment

- Climate strategies
- Inputs and waste
- Caring for our natural capital



Grow our Economy

- Creating new jobs
- Growing output
- Investing in R&D
- Increasing exports



Value our People

- Health safety and wellbeing
- Skills and development
- Diversity and Inclusion
- Engaged employees



YFM Equity Partners



Improving our own business

We believe we should set an example to our portfolio by also looking at our own ESG performance.

Our biggest impact

We believe that YFM can probably make the biggest impact on sustainability and ESG through its portfolio of over 35 UK businesses, which is why our newly strengthened Sustainable Investment system is so important to us. But YFM itself operates from 5 UK locations and has over 30 employees, so we too have our part to play in improving our society and our economy, valuing our people and protecting our environment.

What steps did we take in 2020?



Contributing to local communities – we introduced a one day a month volunteering policy and donated the cost of our cancelled Christmas lunch to local charities.



Reducing carbon footprint – we moved all our energy supplies to renewable sources

Reducing single use plastics – we removed plastic bottles from all our offices and replaced them with refillable glass bottles.



Being a responsible employer – we didn't furlough or make redundant any staff during lockdown and gave additional support and regular check-ins for staff working from home

Creating new jobs – we made 6 new hires in 2020.



Building ESG factors into our values statement – we began work on capturing what we stand for in our Culture Book

Looking after the mental wellbeing of our staff – all line managers received training from Mind on mental wellness and we introduced a new staff engagement survey.

Our ESG lead and wider team involvement

Our sustainable investment approach requires a particular mindset – a belief that the value of a business is determined by its sustainability, including how its people are treated, its impact on society and its impact on the health of the planet. And not just by its revenues and its profits.

Paul Cannings, one of our partners, has led our increased focus on impact and ESG in recent years. He has drawn on his own experiences in the social finance world having worked alongside Big Society Capital, Social & Sustainable Capital, and the Charities Aid Foundation. He has also drawn on the expertise of our specialist external ESG advisors, FWA, to guide our new policies and procedures.



“ Our aim is to produce strong financial returns for our investors, but we also want to have a positive impact on our society and environment. ”

Paul Cannings, Partner



During 2020 our team members took BVCA training on Impact and ESG investing. Further training was planned for 2021 as the new assessment and portfolio management tools are released. Those trained spanned our whole team from management and support staff to the investment and portfolio teams.

ESG Portfolio KPI report

Highlights from 2020

Introduction

We collected over 50 pieces of data from businesses in the YFM portfolio relating to calendar years 2019 and 2020. For some companies we were able to collect data from the point of our investment too.

In future, we will collect this data from every new investment at the point of investment as well as at each year end so we can make comparative analyses over the whole period of our hold, including the basepoint before we started to offer our support for improving ESG performance.

It will not always be possible to collect all data from every business and 2020 proved difficult for those where most staff were furloughed for the year, but we have collected from the vast majority of the portfolio and the results are shown in this section of the report. As 2020 was the first time we had asked for some of this data, some of the portfolio businesses did not have systems in place to collect and collate the data accurately (such as team ethnic diversity). Our aim over time is to be able to collect more of this data and to support our companies to do so as an increasingly important management measure.

The findings

Findings are presented using topics within our thematic ESG framework as presented on page 9.

Overall 2020 was clearly a challenging year for small businesses and there was an overall decline in business volumes and numbers employed compared to 2019. Against this background some of the progress made on ESG matters is very pleasing to see, such as continuing investment in R&D and community programmes, and the increased adoption of wellbeing programmes for employees. Our approach is to help the individual portfolio companies to focus on matters which are most material to their particular businesses. However, there are some common themes where we would like to see some improvement in future across the portfolio as a whole. In particular:

- **Building ESG into Values Statements or Mission Statements**
- **Calculating carbon footprint**
- **Adopting an Environmental Policy**

- **Screening of key suppliers for environmental, human rights, and business ethics issues**
- **Conducting employee engagement surveys**
- **Adopting a Diversity & Inclusion Policy**
- **Putting a Mental Wellbeing programme in place**

We have marked these areas with a target symbol in the following pages

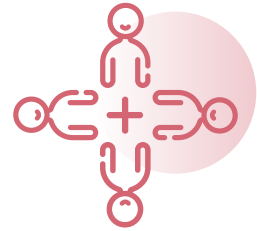


There are some matters where the data is already encouraging - such as 1 in 6 of our companies having a female CEO – but there is clearly still a long way to go and we recognise that as companies join and leave our portfolio our overall results will vary from year to year.

On the following pages we set out highlights of our first ESG data collection and analysis and also an indication of where we aim to target improvement over the next year and beyond.

ESG KPI report

Improving our Society



Highlights from 2020 continued



GOVERNANCE

did businesses have an independent chair?

90% of businesses are independently chaired

(90% in 2019)



GOVERNANCE

did businesses have a female CEO?

1 in 6 had female CEO's but only 1 in 3 had any female directors at all

(1 in 5 and 1 in 3 in 2019)



QUALITY STANDARDS

did businesses have Quality or Information Security accreditations?

45% had ISO 27001 (IT security) or ISO 9001 (Quality) standards in place

(45% in 2019)



SUPPLY CHAIN SUSTAINABILITY

did businesses screen their supply chain?

30% screened their suppliers for both human rights and wider ethics standards

(30% in 2019)



TREATING CUSTOMERS WELL

did businesses monitor customer satisfaction?

50% collected customer satisfaction data

(45% in 2019)



SUPPORTING LOCAL COMMUNITIES

did businesses contribute to community causes?

207 volunteering days and £113k donated to community causes

(58 days and £48k in 2019)

ESG KPI report

Protecting the Environment



Highlights from 2020 continued



ENVIRONMENTAL STANDARDS

did businesses have an accredited standard?

20% had ISO 14001 Environmental Management Standard accreditation
(25% in 2019)



ENVIRONMENTAL IMPACT OF SUPPLY CHAIN

did businesses screen suppliers for environmental factors?

Only 15% screen their suppliers for environmental management or have a Sustainable Supply Chain policy
(15% in 2019)



CARBON REDUCTION

did businesses have carbon reduction strategies?

45% had carbon reducing strategies in place...
(40% in 2019)



CARBON REDUCTION

did businesses measure their carbon footprint?

...But only 10% calculate their carbon footprint
(15% in 2019)



WASTE

did businesses have input and waste strategies in place?

50% had material input reduction strategies
75% had landfill diversion strategies
(45% and 65% in 2019)



SINGLE USE PLASTICS

did businesses have single use plastic reduction strategies in place?

55% have plastic reducing strategies in place
(50% in 2019)

ESG KPI report

Valuing our People



Highlights from 2020 continued



KEEPING PEOPLE SAFE did businesses have mental wellbeing initiatives in place?

50% had mental wellbeing programmes in place

(45% in 2019)



TRAINING PEOPLE did businesses give staff skills and development training?

20,000 hours of non-statutory training given

(30,000 in 2019)



EMPLOYEE ENGAGEMENT did businesses formally survey their employees?

35% conducted formal employee surveys

(30% in 2019)



WELL PAID MEANINGFUL JOBS did businesses pay more than the minimum wage to all staff?

95% paid all their staff more than the minimum wage

(90% in 2019)



DIVERSITY & INCLUSION did businesses have a gender diverse workforce?

30% of employees were women

(25% in 2019)

ESG KPI report

Growing our Economy



Highlights from 2020 continued



ECONOMIC GROWTH

did businesses create and/or maintain jobs?

2,954 FTE jobs

(2,805 in 2019, 3% down LFL*)



ECONOMIC GROWTH

did businesses invest in R&D?

£12m invested into R&D

(£14m in 2019, 18% down LFL*)



ECONOMIC GROWTH

did businesses increase exports?

£34m of exports

(£29m in 2019, 18% up LFL*)

*Like for like figures compare 2019 to 2020 excluding businesses added to or exited from, the portfolio during 2020

Case study

Environmental management and sustainability policy



displayplan

What was the challenge?

displayplan designs and supplies point-of-purchase display programmes for the retail sector. As their products are highly visible in retail premises, the quality and durability of their product is clearly crucial. But having a sustainable supply chain for its materials, and providing environmentally low impact solutions for clients, has also become increasingly important.

How did they address this?

displayplan is clear about what it strives to achieve with its sustainability policy: "Our goal to achieve net zero carbon can only be realised with commitment from initial design thinking through to the whole supply chain." This drives how the company plans each project from the outset, how they engage with their customers and how they choose and monitor their suppliers:

Measuring – embedded carbon content of retail display components

Reducing – levels of embedded CO2 to hit specific targets

Designing – for disassembly – to maximise the ability to recycle materials at end of life

Offsetting – carbon where embedded emissions can't be reduced

What was the outcome?

This approach has not only won displayplan awards for constantly evolving and reducing the carbon footprint in their solutions, including a POPAI* sustainability award for their work with Pepsico, but has also helped drive success during two very difficult Covid years for retail.

*Point of Purchase Advertising International

displayplan is still held in YFM's portfolio having grown its revenues to £18m in 2020.



Case study

Valuing People



What was the challenge?

Manchester based Fournet's business is the design, installation and maintenance of managed services for large contact centre systems for local and national government and enterprise scale private sector clients. Recruiting and retaining motivated and engaged employees is critical to its competitiveness. ESG KPI analysis showed that before our investment there was a lack of employee surveys, records of staff training and career development plans. When team surveys were introduced, satisfaction scores were low and the business had a relatively high staff turnover rate. Engagement was clearly an issue.

How did they address this?

FourNet decided to address employee engagement in a number of ways but most significantly set itself the target of winning a place in the Best Companies to work for survey within 2 years.

The Best Companies award process gave Fournet a proven framework to work to in terms of optimising the factors in employee experience, leadership and management:

Leadership – the heads and senior managers of the company and company culture

My Manager – the local management on a day-to-day basis

Personal Growth – opportunities to learn skills and advance

Wellbeing – balancing work-life issues

My Team – immediate colleagues and working together

Giving Something Back – giving back to society and to the community

My Company – the company and the way it treats and engages with its staff

Fair Deal – satisfaction with pay and benefits

What was the outcome?

The programme was a great success and in 2020 Fournet achieved a 1 star award, and in 2021 a 2 star award, being ranked as one of the top 100 businesses in the North West to work for, based on employee feedback.

YFM exited its investment in FourNet in 2021 with a 6x return.



Case study

Diversity



What was the challenge?

CPMS is a provider of consulting and infrastructure solutions to the rail industry. The rail infrastructure industry is highly focussed on safety and reliability, but also has a reputation for being slow to change, inefficient, and older male dominated.

CPMS wanted to bring a fresh approach to the industry and to recruit and retain an enthusiastic team with good age and gender balance. They recognised that “our employees’ talent is key to our culture, our brand identity and our reputation”.

How did they address this?

CPMS became members of the **Equality, Diversity & Inclusion charter** launched by the Railway Industry Association and key supporters of Women in Rail, an organisation designed to support women within the sector, position rail as an attractive career and encourage diversity as a business strategy. CPMS became a leading example by 2020 with a 50:50 gender split in their team and 2 female attendees added to their board.

As part of their employee engagement programme, the business also set up **CPMS Community Kindness**, inspiring employees to become personally involved with local community groups, offering employees up to 5 paid volunteering days per year.

What was the outcome?

Employee “highly satisfied” rating

88% → **92.5%**

Growth in number of jobs FTEs

27 → **75**

Gender balance - female staff %

43% → **50%**

% of staff with career development plans

42% → **60%**

Female Board attendees

0 → **2**

Mental wellbeing programme in place?

No → **Yes**

YFM exited its investment in CPMS in 2021 with a 2x return.



